

PROJECT REPORT
MACEDONIAN COURT MODERNIZATION PROJECT

1. Project Name: Macedonia Court Modernization Project
2. Consultant Name: Kathryn Harrison
3. Dates of Consultancy: March 2 - March 24, 2004
4. Names and Dates of Counterparts Met During Consultancy:
 - March 3, 2004: Director of the Administrative Office of the Court Budget Council - Zanina Kirovska
 - March 9, 2004: President of the Appellate Court in Skopje and member of the CBC - Judge Filimena Manevska
 - March 9, 2004: Chair of the Supreme Court's Transition Team – Judge Dragan Tumanovski and AO Director – Zanina Kirovska
 - March 10, 2004: Bearing Point –Mark Silins, Dean Brown
 - March 10 - March 13, 2004: Study Tour to Slovenia; included meetings with representatives of the Slovenian Supreme Court, the Ljubljana Circuit Court, and the Ministry of Finance
 - March 17, 2004: President of the Republic Judicial Council - Lenche Sofronievska
 - March 18, 2004: Budget and Management Financial Group, organized under the auspices of Bearing Point
 - March 22 - March 23: Strategic Planning Training
 - March 24, 2004: Debriefing with USAID
5. Description of Consultancy: please see Consultant's Report below
6. Attachments
 - I: PowerPoint Presentation – Strategic Planning Workshop
 - II: Operational plan of the California Judicial Council
 - III: Competencies of the Court Budget Council
 - IV: Program Breakdown
 - V: Checklists for Budget Development, Budget Review and Budget Monitoring
 - VI: Summary of Timeline of Recommended Activities

CONSULTANTS REPORT

Rule of Law Assistance Project

Macedonian Court Modernization Project
March, 2004

Judicial Branch Governance and Budgeting

DPK Consulting
United States Agency for International Development (USAID)

Consultant: Kate Harrison

CONSULTING ACTIVITIES

Consulting was conducted over a three-week period in March, 2004. Meetings were held with members of the Court Budget Council (CBC) and the Court Budget Transition Team, the Director of the Administrative Office of the Courts (AO), the Ministry of Finance (MOF), Bearing Point, and the Department for International Development. Training was provided through a three-day study tour to Slovenia and a two day strategic planning workshop for members of the CBC, the Director of the AO, and selected Presidents of the Basic Courts.

OVERVIEW

The Macedonian judiciary has made great strides by establishing the legal framework for judicial independence. Unlike court systems in other countries, the establishment of the budget council with broad representation from the courts provides a stable basis for instituting significant budgetary and financial reforms. In the first quarter of 2004, the CBC/AO actively addressed 2) increasing the amount of funding available to the judiciary, 2) allocating funding in centralized areas such as capital planning, hardware/software expenditures for pilot courts with EU-provided systems, and education for judges and staff and 3) equalizing judicial salaries between courts which were created from when basic courts' judges' salaries were determined at the municipal level.

The CBC/AO should now focus on developing structures that, in addition to assisting in acquiring more funding, enhance the independence of the judiciary and promote responsible fiscal management. In order to do so, it needs to address underlying structural, strategic planning and daily management issues. The CBC recognizes the importance of and is planning to meet with the Prime Minister to resolve the structural issues discussed below and has begun to consider strategic planning. More effort needs to be directed to the ongoing budget development and expenditure control process. The planning and implementation phase is critical to insure that the other branches of government do not retain excessive control over the judicial branch by virtue of daily, operational decisions.

ANALYSIS OF PRIMARY ISSUES

I. KEY STRUCTURAL ISSUES

The CBC/AO continues to work to resolve several pressing issues, many of which require coordination with the MOF and Prime Minister's Office.

A. Structure of the Administrative Office

Issue/Activities to Date: During the previous visit, an analysis of the staffing needs and a comparison of the structure and staffing of comparably-sized Administrative Offices of the Courts in American states were conducted and a model structure and an initial target of 16 staff

for the Administrative Office developed. The CBC has requested and approved approval in the systemization for 14 new positions, of which the AO intends to fill 7 this year.

The functions of the Assistant Director, Public Affairs/Intergovernmental Division have been incorporated in a Deputy Director, Legal Affairs position. A specific position dedicated to Public Affairs would be build public trust and confidence in the judiciary. CBC members who attended the Slovenia site visit indicated they were impressed with the work of the public information and affairs position established in the Slovenian Supreme Court. The AO could also a second attorney at the staff attorney level to allow the Deputy Director sufficient time to conduct high level legislative affairs and public information/relation responsibilities.

Next Steps:

CBC: Reconsider hiring a Public Information and Affairs Officer or hire a second attorney to allow the Deputy Director, Legal Affairs sufficient time to focus on public information and affairs

Timeline: July, 2004

B. Filling Positions in the AO and in the Courts

Regardless of the eventual structure of the AO, filling positions in the AO is critical. Little progress can be made in advancing the judiciary's financial independence and other goals without adequate staffing. At the time of the consultancy, three positions - the Director, Internal Auditor and one accountant position - had been filled and advertising for a second accountant had begun. . MOF seems to be impeding the AO in filling positions and/or having positions transferred from MOF to the AO. The State Advisor in the Minister of Finance (a non-voting member of the CBC) questions the need for the five requested financial staff for the CBC, even though these positions have been approved in the systematization and funding is available.

Inconsistencies between statutes create uncertainty about the authority to fill budgeted positions as they become available. Article 9 of the Law of the Court Budget calls for the CBC/AO to "... approve funds for new employments in the courts within the framework of (the) fixed court budget ... designated for ... salaries..." However, the Law on the Execution of the Budget and the Law on Public Servants do not distinguish employment in the executive and judicial branches.

MOF is relying on these later statutes and an IMF requirement for an overall 4% reduction in positions in 2004 to deny the AO and courts the right to hire positions approved in the systematization and for which funding is available. In contrast, in Slovenia, the MOF does not approve filling individual positions in any ministry although salaries continue to be regulated by the Law of Civil Service. CBC members are seeking legal clarification about this issue.

MCMP continues to seek a budget expert for a period of four to six months to assist the CBC/AO in the transition period and has identified a budget manager in Slovenia available to provide some assistance in June, 2004.

Next Steps:

CBC/AO: Assess whether legal changes are needed to clarify the judiciary's staffing authority.

Timeline: May, 2004

C. Management of Debt and Disposition of Revenues

Issues/Activities to Date: Discussions with the MOF about assumption of the \$46 million denars in debt for judicial operations have begun but the proportion that will need to be assumed by the courts has not been determined.

In addition, immediate negotiations about retention of misdemeanor revenues by the judiciary, estimated at approximately 5% of the total judicial branch budget, are also required. While the Law on Sanctions allows these revenues to go to the courts directly, the Law on Budgets, Article 6 calls for them to be swept to the government and then enumerated in the budget under specific, appropriated items. Courts have been using these amounts for covering overages in budgeted funds and the CBC should not allow these revenues to be captured centrally until the debt management issue is resolved. ***A compromise lies in allowing the judiciary to retain these revenues in exchange for a commitment to eliminate arrearages by a given date, after which point the revenues would be collected at a central level but allocated to the courts in the normal budget process.*** The government could also schedule repayment of each court's debt over time depending on the percentage the debt represents of the court's annual appropriation. This approach is being pursued for local government debt as management responsibility is devolved to local government.

Appropriation of 80 million denars in revenues from seized assets, historically used by the Ministry of Justice to fund court capital projects, also remains unresolved. This significant source of funds should be forwarded to the central government and then appropriated to the CBC for capital projects, as is now the case in Slovenia for automation projects.

The previous report recommended that the Internal Auditor prioritize reviewing revenue accounting practices in the courts in advance of the planned MOF revenue auditing effort in 2005. The AO should avail itself of a World Bank-sponsored two-week training course in internal auditing to all budget users with internal auditors.

Next Steps:

CBC/AO: Seek an explicit, written agreement from the MOF about the amount of past debt to be absorbed and revenues to be retained by the judiciary. Work toward a compromise that allows courts to retain some revenues in exchange for eliminating past debt, with future revenues collected centrally but allocated to the judiciary in the normal budget process.

Timeline: May, 2004

CBC/AO: Survey the courts about the amount of revenues collected in past years and the controls utilized in collecting, accounting for and expending revenues.

Timeline: October, 2004

D. Budgeting for Fixed and Uncontrollable Costs

As discussed in the last report, many of the arrearages in the courts are for fixed or uncontrollable costs not under their direct control, for example for utilities, or for costs related to services necessary for judicial decision-making, including ex-officio attorneys and interpreters. As discussed forcefully by Judge Maan, failure to provide adequately for these latter costs could constitute a breach of Article 6 of the ECHR if it impacts the ability of judges to independently try cases. We recommended separating these uncontrollable and case-related costs in the 2005 budget request and making specific budget arguments about them. This has not been contemplated by the AO at the time of the consultant's site visit and should be considered a priority.

Next Steps:

CBC/AO: Request that separate project budgets be created for fixed costs, such as utilities, and for professional costs related explicitly to judicial decision making.

Timeline: May, 2004

E. Expenditure Control and Reporting/Transfer Requests

Role of MOF

The consultant believes that the MOF continues to exercise extensive control over individual court expenditures instead of providing broad financial policy guidance. Article 9 of the Law of the Court Budget authorizes the CBC to allocate funds from the judicial branch budget and make changes in allocation of the funds within and across courts as needed. In initial meetings with Judge Maan, the MOF confirmed that the CBC would serve as the single budget user authorized, within the limits of the budget, to reallocate resources within the judiciary. To implement this, Judge Maan recommended that the CBC "have its own bank account or a similar facility ... in order to provide for an efficient and flexible financing of the courts."

However, because the basic, appellate and Supreme Court remain sub-budget users with their own accounts, the government distributes funds to individual courts, accounting is conducted at that level and, requests to transfer funding between items at an individual court are approved by the MOF, after review by the AO. Thus, while budgeting is now occurring at a central, CBC/AO level, expenditure accounting continues to be carried out at the individual court level. The mismatch between budgeting and accounting undercuts the authority of the CBC/AO to manage judicial branch funding and continues the previous relationship under which the MOF can control judicial operations.

In contrast, in Slovenia, once the budget is approved and the quarterly spending quotas set, the Supreme Court (the central fiscal agent) may reallocate funding without limitation within programs (e.g., the circuit courts) and between programs up to 15%. The Slovenian MOF does not make reallocation decisions impacting the judiciary unless the judicial branch is projected to deplete all funding. In addition, individual courts are free to use funds within their quarterly allocations and within the broad categories of personnel, non-personnel and capital expenditures.

The Macedonian AO wants to continue to hold Basic and Appellate Courts accountable to operate within budgeted funds and is concerned that having the CBC set as a single budget user will reduce accountability on the local level. This is a complex issue: while accountability at the Basic and Appellate Court level is vitally important, flexibility for the CBC/AO to make best use of overall judicial resources and assert the independence of the judiciary is even more critical. From a legal perspective, it is important to determine the ultimate fiscal agent. While the MOF is well situated to perform financial functions on behalf of the CBC/AO, the CBC/AO has the legal and operational authority to make decisions about use of judicial branch resources.

Level of Expenditure Control

During both site visits, it became clear that the extensive level of detail at which the government appropriates and manages funds for all budget users, including the judiciary, prevents budget users from operating flexibly and effectively managing their resources. Monthly allocations are made and controlled at the item level; thus transfer requests from one item to another routinely and early in the fiscal year. In the case of the judiciary, this problem is exacerbated by the fact that most courts conduct little analysis of their actual spending patterns and simply develop their budgets on the same basis as the prior year.

Broadening the level at which expenditures are controlled and moving to quarterly allocations would be of great assistance. The MOF is considering the level (e.g., item, sub-item) and intervals (e.g., to quarterly) at which changes need to be approved. Possible changes include controlling expenditures on a quarterly basis in broader categories, such as salaries, operating and capital funds as called for in the Law on the Execution of the 2003 Budget of the Republic of Macedonia, Article 7.

Regardless of the level and timing of accounting required by the MOF, the AO can require that court budgets reflect the reality of where funds are spent. The AO should direct courts to develop future budgets based on how funds are actually spent (as well as new initiatives) instead of on past budgets and provide training to help them do so.

The AO should also focus on creating systems for projecting annual costs and working with the courts to develop plans for meeting budget targets, rather than simply dealing with individual court requests. The CBC/AO needs to develop explicit transfer policies and criteria that reward efficiency and strong management. Routinely transferring funds from courts that underspend may reward a “use it or lose it” mentality and discourage efficiency and planning. Conversely, if courts that consistently overspend know that they will receive supplemental funding and not be required to introduce reforms, poor management will be rewarded. In addition, some basic courts are not timely in providing monthly operating and salary requests, keeping the AO from

submitting any of the courts' monthly plans to MOF. Sanctions for non-performing courts are needed.

Management of whatever level of debt the courts are expected to absorb (see above) needs to take place. While the courts report the amount of outstanding debt each month, specific financial plans for eliminating the debt within a given time period have not been developed. This is largely because the MOF has not set policies for linking monthly and quarterly liability reports to monthly and quarterly cash plans; these reports remain separate. Bearing Point will be offering cash management training, to include both current expenditure and debt management, in the next few months and the

Next Steps:

CBC/AO: Consider creating a single budget user to facilitate control and movement of funds. Develop a bank account or similar facility for the CBC to be the recipient of all budget funds.

Timing: June, CBC/AO 2004

CBC/AO: Promulgate policies concerning use of actual expenditures to classify budgets, systems for projecting annual costs and meeting budget targets; transfer of available funds within and between courts and sanctions for non-performing courts. Avail itself of cash management training; provide instructions to courts about current expenditure and debt management.

Timeline: June-July, 2004

F. Funding/Planning For Capital Projects

Issue/Activities to Date: The Macedonian Judiciary has established a strong basis for integrated financial planning with adoption of responsibility for capital project funding and management. The Ministry of Justice has handed over responsibility for capital planning and execution to the CBC/AO and provided a report summarizing the physical condition of all court facilities and ongoing capital project commitments. In contrast, in Slovenia and in all but one state in the United States, the executive branch continues to be responsible for capital construction and renovation.

While the previous report recommended examining multi-year capital budgets and provision for carrying these funds forward across fiscal years, the AO has indicated that this is not feasible within the Macedonian system. However, the Administrative Office is confident that the MOF will respect the need to complete started capital projects identified in the three year capital plan.

G. Reserve Funding

The CBC/AO has established reserves for its global programs of capital planning, education and software/hardware provision. There is, however, no reserve for operating funds for the courts.

The CBC/AO may want to consider requesting a small operating reserve in the 2005 budget so it can avoid returning to the government to request funds for minor augmentations.

Next Steps:

CBC/AO: Consider requesting a small operating reserves in the 2005 budget

Timeline: July, 2004

II. STRATEGIC PLANNING/PERFORMANCE MANAGEMENT

Issue/Activities to Date: The legislative framework under which the CBC was established emphasizes the budgetary role of the CBC. However, broad strategic planning considerations are inherent in the responsibility for financial planning and management. Developing explicit strategic plans would 1) assist the judiciary in setting and pursuing set objectives instead of simply responding to directives and financial mandates from the executive and legislative branches, 2) allow the judiciary to improve judicial performance and show demonstrable results and 3) simplify the budget process by giving the CBC/AO standards against which to judge budget requests. In addition, Bearing Point is recommending that the 2005 budget circular require completion of a strategic plan with any requests for new funding linked to the plan. Finally, the Law of the Court Budget calls for the CBC/AO to provide total expenditure caps for every user by April 1, which can best be accomplished by planning which areas are priorities for spending.¹

A two-day session on strategic planning focused on five discrete but interrelated steps of strategic planning. During the training, participants were asked to differentiate between overall goals (e.g., improve judicial performance), annual objectives (realization of the 2004 education program) and performance measures (the number of trainings provided; the results as judged from program evaluations and improved performance). The functional analysis approach promulgated by the General Secretariat as a tool for strategic planning and the benefits of legislative impact statements were also presented. Finally, the development, maintenance and dissemination of the plan to the courts, other branches of government, the bar, and the public was discussed.

Setting Goals and Objectives

The training provided examples from the five performance standards promulgated by the National Association of Court Managers (NACM) and strategic and operational plan of the California Judicial Council (Attachment II). These examples built on presentations during the Slovenian site visit about the goal setting process there, where the circuit courts set the own objectives within broad long range goals set by the Supreme Court (e.g., reduction in unresolved cases; increase in quality of work) and annual goals (time to resolution by case type).

¹ The CBC will need to determine if it will limit each court to the percentage growth established by the MOF or seek to apply that limit to the entire judiciary, with variations for local circumstances.

The starting point for the Macedonian judiciary's strategic plan is the Strategic Objectives of the Government of Macedonia for 2004. In concert with these priorities, the CBC/AO submitted a list of ongoing priorities and annual objectives to accompany the fiscal year 2004 budget submission (see Attachment III). The CBC will continue to refine these goals and objectives for submission as part of the fiscal year 2005 budget and should ask courts to tie budget requests to the strategic priorities (see discussion of *Budget Circular* below).

In 2004, the government tied 400,000,000 denars to its strategic priorities for which budget users could apply. The General Secretariat has not issued the annual program for 2005 but the CBC should consider applying for this funding under one or more of the categories of: facilitating the European Union integration process, strengthening the rule of law, fighting organized crime and corruption, or optimizing the public sector. In addition to these policy directions, the Government has established institutional development priorities, including divestment of non-core functions, development of common functions (HR, budget, policy planning) in each ministry, a training strategy, and an IT strategy. These institutional priorities should also be reflected in the judiciary's budget request for 2005.

Next Steps:

CBC/AO: Refine goals and objectives for 2005 budget submission.

Timeline: May, 2004

CBC/AO and MCMP: Provide training to the pilot and then all basic courts in strategic planning.

Timeline: June, 2004

Developing Performance Measures/Workload Formulas

The training emphasized developing practical and measurable performance indicators that focus on three key questions: how efficiently are cases adjudicated (resources used to dispose of cases), how quickly (time to disposition) and how effectively. Some of the data needed to create performance measures in Macedonia is already being collected. The Supreme Court has information on appeal and reversal rates. The Republican Judicial Council is collecting data about individual judges on several measures including the number of unresolved cases and time to disposition. User satisfaction with the judiciary can be evaluated through qualitative measures such as those developed by MCMP and the pilot courts (known as the Q-10).

The Slovenian judiciary provides a good model for performance measurement that focuses beyond the number of cases resolved and toward broader outcomes. The Slovenian judiciary uses the following performance indicators:

- Qualitative measurement of outcomes: number of appeals, number of reversals
- Management of cost of work: cost/resolved case
- Better use of working time: at least 80% of available hours spent in work

Macedonian Court Modernization Project Judicial Branch Budgeting and Governance

- Satisfaction of employees and customers with the work of the courts: assessed through surveys
- Alternative settlement of disputes: 5% of the more complex cases should be resolved through ADR in 2004; this percentage to increase to 7% in 2005.

The Slovenian judiciary also uses the number of cases resolved per month as a measure for additional 20% in compensation for judges who agree to work in courts with backlogs, once a given number of cases have been resolved (known as Project Herkules). The achievement of all of the year's goals is reported in February, when the Circuit Courts provide explanatory notes which include a discussion of the achievement of past year goals and goals and indicators of efficiency and success for the budget year.

The staff of the Ljubljana Circuit Court recommended setting goals/performance indicators from the outset of the budget process. Article 18 of the Law on Court Budgets requires the Macedonian CBC/AO to deliver a report to MOF, the Government of the Republic of Macedonia and the Assembly concerning the enforcement of the Court Budget; in order to do so effectively, goals and performance measures need to be established at the beginning of the fiscal year.

Unlike performance measures, which seek to measure outputs (how well an organization is performing), workload formulas measure the inputs in the budget process, for example the number of cases filed per judge or available resources, such as staff or denars per judge. One member of the CBC also indicated an interest in using workload formulas to determine whether the jurisdictional boundaries of the Skopje I and II Basic Courts are appropriate.

Issues concerning simplistic use of workload formulas were discussed in the last report. These formulas should be introduced in concert with and not as a replacement for the strategic planning effort discussed above. Application of workload formulas should also be made only after fixed costs have been budgeted for separately (see *Budgeting for Fixed and Uncontrollable Costs*, above). However, while performance measures are under development, workload formulas can be used to evaluate the comparative funding needs of courts and for allocation purposes. For example, when court funding was centralized, California began by using workload ratios, such as staff per judge, to judge budget needs but has now moved towards the kinds of performance measures discussed above.

In order to develop workload formulas, reliable and easily collected data is needed on an individual court as well as the national level. MCMP has developed a data collection form and the Administrative Office is using the form to compare denars per judge, staff per judge, and filings per judge in 2003 across Basic Courts. As previously recommended, having a committee of representatives of CBC and the Basic and Appellate Courts evaluate performance standards and workload formulas will improve the transparency of and commitment by the basic and appellate courts to the standards that are created.

Next Steps:

CBC/AO: Establish a committee of members of the CBC and selected basic court presidents to create initial workload formulas and begin development of performance measures. Analyze workload data.

Timeline: June, 2004

Creating Discrete Programs

The functional analysis methodology adopted by the General Secretariat requires ministries to categorize their functions; determine functions that could be eliminated or provided more efficiently, delineate funding priorities and identify legal changes required to effectuate the recommended changes. We confirmed with DFID that Ministries will be required to complete this by June, 2004.

A full functional analysis can not be expected to be completed this year. However, as a starting point, the judiciary should break its operations into more discrete programs, such as those listed in Attachment IV; data concerning filings and dispositions in each of these areas are already collected routinely by the basic courts. Classifying all costs simply as either case related or administration does not provide enough information to make budget decisions; a more discrete classification is needed. The cost of any function that the judiciary wishes to augment or eliminate should be estimated.

Next Steps:

CBC/AO and MCMP: Identify functions for augmentation, elimination or reorganization. Estimate the cost of those functions.

Timing: June, 2004

Determining the Operational/Fiscal Impact of Legislation

An additional concern relates to who is responsible for evaluating the impact of legal reforms on the judiciary. The Ministry of Justice has begun to include judges on legislative working groups for criminal, civil and administrative law reform. However, there is still not a strong enough linkage to budget/implementation issues, for example determining the practices and funds needed for training in new laws, forensic investigations, or additional staff to comply with speedy trial requirements attendant to criminal law reform efforts. The MOF is required to indicate in the narrative for all new legislation whether there will be financial implications but there are usually no amounts provided. Explicit legislation was created in California to require the legislature to seek judicial input about the operational and financial impacts on the judiciary of pending legislation. The CBC should consider replicating this legislation and creating other informal mechanisms for providing input.

Next Steps:

CBC/AO and MCMP: Consider legislative and policy approaches to providing input into the operational and financial impacts of proposed legislation.

Timeline: August, 2004

III. ONGOING BUDGETARY ACTIVITIES

A. Budget Circular and Process

Issue/Activities to Date: The budget circular from the MOF is likely to change significantly for 2005 due to reform efforts underway in the Ministry. Bearing Point is recommending establishing a Budget Steering Committee to include the MOF, General Secretariat and representative budget users to develop the detailed budget circular. Nonetheless, very shortly, the fiscal strategy will be released by the government and the requirement for budget narratives, priority setting, performance information and a multi-year budget approach, with the full circular to follow.

Rather than waiting for the entire package to be issued by the MOF, when the fiscal strategy is released, the CBC/AO should itself issue an initial circular to the basic, appellate and Supreme Court to alert courts of the outlines of the 2005 budget submission. The initial circular should include:

- A summary of priorities developed by the CBC
- Expenditure ceilings
- Assumptions for parameter adjustments (e.g., inflation, wage increases)
- Guidance on incorporation of strategic planning, functional analysis results
- Direction on common policies, such as hiring new staff

Once the full circular is released by the MOF, the CBC/AO can develop a specific format for budget users to follow in preparing their budget submissions. Checklists for budget development, budget review and budget monitoring (Attachment V) can guide the CBC/AO in providing direction to the courts about what elements need to be included in their detailed budget submissions.

In addition, the CBC/AO needs to develop a process for the Basic, Appellate and Supreme Court Presidents to discuss their budget requests and allocation decisions with the CBC so that budget approval does not rest solely on the strength of written submissions. As in Slovenia, the Macedonian CBC needs more consultation with budget users in preparing a coordinated financial plan and developing the criteria for fund allocation and making actual allocation decisions. Representation on the CBC by the Basic and Appellate Courts is necessary but not sufficient to guarantee that individual court's needs are adequately considered. Slovenian representatives admitted that the structure and operations of its Supreme Court staff evolved over time rather than constituting of a well-considered plan and that the system there lacks adequate court input.

Next Steps:

CBC/AO and MCMP: Develop a budget circular for 2005 that reflects the fiscal strategy from the MOF and the strategic planning effort conducted by the CBC.

Timeline: May, 2004

CBC/AO and MCMP: Create and disseminate the full budget circular and instructions for fiscal year 2005. Develop a process for courts to discuss their budget requests with the CBC.

Timeline: On release of the full budget circular from the MOF

B. Automated Financial Systems

Issue/Activities to Date: The CBC/AO is developing software tools for budgeting and accounting that will provide accurate forecasts and reduce the amount of manual data manipulation that must be conducted by CBC and court staff. This will also increase the time available for analysis of spending trends and budget needs.

Significant progress has been made in the needs assessment for financial software needs at the AO level; the AO has selected an operating system for its financial system that is compatible with the MOF. The MCMP has been assisting the CBC/AO in this effort. The basic and appellate courts use Microsoft as the operating system and will need to be transitioned to the CBC/AO system to allow them to communicate financial data electronically.

The Slovenian Supreme Court uses a web-based application for budget development at the individual court level; information is then aggregated and evaluated at the Supreme Court level and the final budget forwarded to the MOF. The Macedonian CBC/AO may want to consider migrating to a more flexible web-based system once the budget and accounting modules are in place.

C. Budget/Finance Staffing for the Courts

Issue/Activities to Date: A regional approach to providing budget and finance staff for the basic courts under the auspices of the Appellate Courts was discussed in the last report. Further information about regional models used in the United States was provided during the current site visit. Members of the CBC and AO staff expressed interest in further exploring regional administrative support systems.

Slovenia has the outlines of a regional approach. Circuit Courts are responsible for the financial operations of the District Courts in their area, allowing coordination of budget requests and a lesser administrative burden on the Supreme Court staff. Nonetheless, the Slovenian judiciary recognizes the weakness in the system being inadequate responsibility for expenditures on the District Court level. In order to retain the coordination benefits but insure District Court

accountability, the judiciary is seeking to amend the Law on Courts to provide District Courts with the responsibility for ongoing financial management while retaining the centralized budget at the Circuit Court level. The legislation would also allow the District Court President Judge to delegate some authority for financial management to the Court Secretary, including disposing of budget funds, undertaking and verifying obligations, and issuing orders for payment in line with the budget. In fact, the Ljubljana Circuit Court has decentralized some responsibility for financial management to the District Courts in its area and has provided this authority to Court Secretaries. The CBC/AO should consider whether a similar structure, with the Appellate Courts in the budget coordination role, would be effective in Macedonia.

Next Steps:

CBC/AO and MCMP: Discuss and determine the outlines of a regional approach; provide for minimum regional staffing in finance and budget in the 2005 budget submission.

Timeline: May, 2004

D. Training Plan/Schedule:

Issue/Activities to Date: The last report recommended three areas of training, two focused on the CBC/AO and one on the Basic and Appellate Courts. The study-tour to Slovenia provided training to the CBC/AO in creating effective and transparent budget processes; training in strategic planning was also provided to the CBC/AO.

The Basic, Appellate and Supreme Courts need training in the mechanics of the budget process, including debt management, standardized budget development, consistent cost reporting and automated budgeting tools (once introduced). The CBC/AO and the courts should avail themselves of 1) cash management training to be offered by Bearing Point in late spring, 2) internal auditing training offered by the World Bank and 3) an MOF training unit to be established in September, 2004. In addition, sessions introducing the courts to the budget forms to be used in the 2005 budget development process should be conducted on a regional basis; this training is best provided by the CBC/AO, with MCMP's assistance. As discussed above, training in functional analysis and development of performance goals and measurements needs to be provided to the pilot courts and then all courts.

Next Steps:

CBC/AO: Attend and provide opportunities for courts to attend cash management, internal auditing and finance training offered through the MOF.

Timing: As offered by MOF.

CBC/AO and MCMP: Organize and deliver training in the use of 2005 budget forms.

Timing: June, 2004

E. Contracting/Purchasing

Issue/Activities to Date: The recommended fixed, annual contract with the Institute for Forensic Medicine, stipulating the types of and rates for services, continues to need to be developed as this represents a significant and, currently uncontrolled, cost for the courts.

Significant changes in the procurement law, pursuant to World Bank requirements, are pending. Thus, other than for the Institute of Forensic Medicine, the CBC/AO should delay promulgating rules for purchasing goods and services and entering master contracts for purchasing goods to achieve efficiencies of scale. The CBC/AO could begin to assess, with input from the Basic, Appellate and Supreme Courts, what services and goods are purchased in large quantities and would benefit from master contracts.

Next Steps:

CBC/AO: Establish a fixed, annual contract with the Institute for Forensic Medicine. Determine with input from the Basic, Appellate and Supreme Courts for which goods and services the AO should consider entering into master contracts.

Timeline: July, 2004 for Institute for Forensic Medicine Contract
October, 2004 for other activities

MCMP: Provide models from the United States and Europe for coordinated purchasing goods and services.

Timeline: July, 2004